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TAGS: PFOR, US, JM

SUBJECT: GOJ ALUMINUM STOCKPILE PROPOSAL

REF: KINGSTON 1375

WITH REFERENCE TO AMBASSADOR'S MEETING WITH PM MANLEY,
(REFTEL), QUOTE BELOW IS GOJ STOCKPILE PROPOSAL:

BEGIN TEXT:

U.S. STOCKPILE ALUMINIUM INGO 99.5 PER CENT PURITY

BETWEEN THE YEARS 1953 AND 1973, THE PRICE OF ALUMINUM INGOT,
BASED ON AN AVERAGE ANNUAL SELLING PRICE, VARIED BETWEEN
20 CENTS AND 29 CENTS PER LB. DURING THE YEARS 1953 TO
1963, U.S. GOVERNMENT PURCHASES FOR STOCKPILE PURPOSES AMOUNTED
TO 3,829 MILLIONS OF LBS. AND IN THE PERIOD 1963/1972
U.S. GOVERNMENT SOLD 1,457 MILLIONS OF LBS FROM THE STOCKPILE.

BETWEEN THE YEARS 1973/1974, THERE WERE NO PURC-
CHASES FOR STOCKPILE PURPOSES, BUT IN A PERIOD ESTIMATED AT
EIGHTEEN MONTHS, 2,482 MILLIONS OF LBS. WERE SOLD FROM THE
STOCKPILE. THESE SALES REPRESENTED THE SHORT-FALL BETWEEN
DEMAND AND PRODUCTION AT A TIME WHEN THE SMELTING FACILITIES
WERE WORKING AT MAXIMUM CAPACITY. DURING THIS SAME PERIOD
1973/1974, PRICES OF ALUMINIUM MOVED FROM 25 CENTS PER LB.

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TO 39 CENTS AND IT IS ESTIMATED THAT PRICES MIGHT WELL HAVE

FOUND LEVELS OF 45 TO 50 CENTS PER LB., AS OCCURED IN EUROPE AND JAPAN, IF THE STOCKPILE SUPPLIES HAD NOT BEEN AVAILABLE TO INHIBIT THE GROWTH IN PRICES.

IT IS A FACT THAT THE HISTORY OF THE INDUSTRY INDICATES PERIODS OF EXCESSIVE INCREASES IN CAPACITY SOME FOUR YEARS AFTER MARKET GROWTH HAS DEMONSTRATED THE CURRENT CAPACITY'S INABILITY TO MEET DEMAND, AND THE INDUSTRY HAS PASSED THROUGH SEVERAL CYCLES OF OVER-CAPACITY SINCE THE WAR. THE LAST CYCLE, ENDING WITH THE CONSUMPTION EXPLOSION OF 1973/1974, SHOULD NORMALLY BE FOLLOWED BY COMMITMENTS TO INCREASE PRODUCTION FACILITIES SUBSTANTIALLY, BUT IT APPEARS THAT THE INDUSTRY WILL NOT ENGAGE IN ANY SUBSTANTIAL INCREASE OF MANUFACTURING CAPACITY DUE TO THE HIGH COST OF CONSTRUCTING AND FINANCING THESE NEW FACILITIES. IN FACT, KNOWLEDGEABLE FINANCIAL ANALYSTS ESTIMATE THAT NEW FACILITIES WOULD REQUIRE A PRICE OF 55 CENTS PER LB TO ENABLE THE INDUSTRY TO ENJOY A REASONABLE RETURN ON INVESTMENT.

IT IS INEVITABLE THAT THE U.S. ECONOMY MUST "TURN AROUND" - ONLY THE PERIOD WHEN THIS WILL OCCUR IS UNDETERMINED - AND WHEN THIS DOES HAPPEN IT IS ALSO INEVITABLE THAT CAPACITY WILL NOT BE ABLE TO MEET THE DEMAND. THIS EXCESS OF DEMAND WILL BRING SEVERE PRESSURE ON PRICES AND, USING AS A JUSTIFICATION THE COST OF PRODUCTION BASED ON REPLACEMENT OF CURRENT FACILITIES, ONE WOULD NOT BE SURPRISED TO SEE PRICES MOVE TO A LEVEL OF 55 CENTS PER LB. OR HIGHER UNLESS STOCKPILE SUPPLIES ARE AVAILABLE TO INHIBIT THE EXCESSIVE GROWTH OF PRICES.

THE DEMAND OF 1973/1974 HAS COMPLETELY EXHAUSTED THE SUPPLY OF STOCKPILE METAL. UNLESS THIS COULD BE REPLENISHED PRIOR TO "TURN AROUND" OF THE U.S. ECONOMY, THE INFLATED PRICES ENVISIONED ABOVE WILL BE A REALITY.

JAMAICA AS A BAUXITE-PRODUCING COUNTRY CAN TAKE ONE OF TWO VIEWS:

EITHER (A) THE SHORTSIGHTED VIEW THAT WE WOULD WELCOME A RISE TO THE VERY HIGH PRICES OF THE FUTURE, AS OUR EARNINGS, CALCULATED AS A PERCENTAGE OF THE PRICE OF METAL, WOULD GIVE US GREATLY INCREASED EARNINGS PER TON OF BAUXITE SOLD.
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OR (B) THE LONGER VIEW THAT A STABLE PRICING POLICY WILL ASSIST IN THE GROWTH OF THE USE OF THE METAL WITH THE ATTENDANT BENEFITS OF INCREASED PRODUCTION OF BAUXITE AND ALUMINA.

THE HISTORY OF THE ALUMINIUM INDUSTRY SHOWS THAT GROWTH HAS BEEN ACHIEVED BY CONVERTING USERS FROM OTHER PRODUCTS

TO ALUMINIUM. EXCESSIVE PRICE INCREASES, IN OUR OPINION, WOULD ARREST THIS PROCESS AND WOULD ENCOURAGE USERS TO REVERSE THE PAST TRENDS AND CONVERT FROM ALUMINIUM TO SOME OTHER SUBSTITUTE. ACCORDINGLY, JAMAICA IS CONVINCED THAT (B) ABOVE IS IN THE BEST INTEREST OF THE BAUXITE AND ALUMINIUM PRODUCERS, AND FEELS THAT THIS CAN BE ACHIEVED BY U.S. GOVERNMENT ASSISTANCE.

CURRENTLY THE U.S. SMELTING INDUSTRY IS WORKING AT APPROXIMATELY 85 PERCENT OF CAPACITY DUE TO REDUCTION OF DEMAND. IF THE U.S. GOVERNMENT AGREED TO REPLENISH THE STOCKPILE TO THE SAME EXTENT AS THIS WAS DEPLETED IN 1973/1974, THIS WOULD AMOUNT TO 2,862 MILLIONS OF LBS. THE RATE OF REPLENISHMENT NATURALLY WOULD HAVE TO BE DECIDED, BUT IF WE ASSUMED A PERIOD OF TWO YEARS THIS WOULD NECESSITATE PURCHASES OF APPROXIMATELY 1,400 MILLIONS OF LBS. IN A TWELVE-MONTH PERIOD, A RATE WHICH IS WITHIN THE CAPACITY OF THE INDUSTRY TAKING CURRENT DEMAND TO REMAIN STATIC.

THE MOST PESSIMISTIC PROJECTIONS ASSUME A NEW GROWTH PERIOD TO THE U.S. ECONOMY BY END 1976, AND IF THIS OCCURS AND PURCHASES BY THE U.S. STOCKPILE CEASED AFTER END 1976 (THIS ASSUMES PURCHASES FOR 18 MONTHS AND 2,100 MILLIONS OF LBS. OF METAL), WE FEEL THAT SALES FROM THE STOCKPILE WOULD DEplete STOCKS BY 1978.

THE SALE OF STOCKS REFERRED TO ABOVE WOULD INHIBIT THE EXCESSIVE GROWTH OF PRICES. NONETHELESS, PRICES COULD BE EXPECTED TO MOVE TO 45 CENTS PER LB. AND DISPOSAL WOULD BE ACHIEVED ON A PROFITABLE BASIS AND WITHOUT FINANCIAL LOSS TO THE U.S. GOVERNMENT.

BY CAUSING THE INDUSTRY TO RETURN TO FULL CAPACITY, THE LIMITED OFFICIAL USE

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PURCHASES WILL ENABLE THE RE-EMPLOYMENT OF WORKERS LAID OFF BY THE INDUSTRY, AND THE RETURN TO "FULL-TIME" EMPLOYMENT OF WORKERS RETAINED ON A "SHORT-TIME" BASIS. THE BENEFIT OF THIS MUST BE APPARENT TO YOURSELVES AT A TIME WHEN THE U.S. GOVERNMENT SEEKS IN EVERY WAY TO CURB THE PRESENT TENDENCY TO INCREASE UNEMPLOYMENT WITHIN THE ECONOMY.

IN EFFECT, THEREFORE, THE PROPOSAL IS SUBMITTED AS HAVING TWO CLEAR-CUT BENEFITS:

(A) THE EMPLOYMENT BENEFIT OF RETURNING THE INDUSTRY TO CAPACITY - A SHORT-TERM BENEFIT; AND
(B) THE CREATIONS OF A CAPABILITY TO INHIBIT THE EXPLOSIVE GROWTH OF THE PRICE OF METAL IN THE FUTURE - A DECIDED LONG-TERM BENEFIT.

FEBRUARY 24, 1975 END TEXT.

GERARD

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